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Malaysia

Food Processing Ingredients Sector

Report

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Report Highlights:

Malaysia's food manufacturing industry continues to offer good potential for U.S. food ingredients. Total industry sales saw steady growth of around 9% per annum over the 5 years period to 1999. Industry sources comments that the food processing industry is likely to grow by between 5% and 10% over the next three years.

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1. Malaysia in profile

Malaysia is the third wealthiest country in Southeast Asia with a population of around 23.8 million people. About 61% of its population make up the middle to upper income group of consumers. Its economy has a firm foundation in a mixed economy that comprises strong manufacturing, service and agricultural sectors. Its GDP per capita in 2001 was estimated at US\$3,509, up from US\$3,208 in 1998 when it suffered adverse effects from the regional economic downturn. Since early 2001, Malaysia's economy has been slowing down due to the direct effects of the slowdown in the global economy and the economic slowdown faced by the USA, European Union and Japan. The government estimated economic growth for 2001 at 2.0%, down from 8.5% in 2000. Based on the favourable external and domestic economic environment, economic analysts forecasts Malaysia's economy will grow by 5% for the year 2002.

2. Market summary

2.1 Malaysia's food processing sector in overview

Malaysia's food and beverage processing industry comprises more than 3,200 businesses with total output in excess of US\$ 13 billion today. The businesses involved range from small family-owned businesses to large businesses which are listed on the Kuala Lumpur Stock Exchange or operate as subsidiaries of foreign or multinational businesses. Most businesses serve very localised markets while a few medium to large businesses dominate the market on a nationwide basis.

The industry is one of the most dynamic in Southeast Asia. Major industries include the production of refined sugar, wheat flour and baked products, non-alcoholic beverages, edible oil, dairy products, confectionery and snacks, fish and seafood products, beer, canned pineapple and processed meat. The Table below shows the latest available data on the total size of the food and beverage manufacturing industries in Malaysia.

Gross Value of Major Food and Beverage Manufacturing Industries - 1995 to 1999				
	Food Manufacturing		Beverage Industries	
Year	No. establishments	Sales (US\$ Million)	No. establishments	Sales (US\$ Million)
1995	3,172	8,990.8	104	345.6
1996	2,976	9,024.7	111	412.8
1997	3,176	10,217.3	121	459.6
1998	No official survey was conducted for 1998.			
1999	3,121	13,331.2	117	398.3

Source : Department of Statistics

Total industry sales saw steady growth of around 9% per annum over the 5 year period to 1999. Industry sources comment that the food processing industry is likely to grow by between 5% and 10% over the next three years and that major companies will continue to expand their business through increasing their product range and by gaining market shares both domestically and in export markets.

2.2 Advantages and challenges for US exporters

The Table below summarises the advantages and challenges for US products in the Malaysian food processing sector.

Advantages	Challenges
Malaysia's economy has come out of the recession better than some of its neighbours. Its economy is forecast to grow by 5% in 2002.	The Muslim population (60% of the total population) demands Halal products. US products will have to comply with this very important requirement.
Malaysia's open trading environment has stimulated the extensive use of imported ingredients by its local food processing industry.	Strong competition from countries such as Australia, New Zealand, Argentina, Brazil, Canada, Denmark, India, Thailand and Indonesia.
The government's "Buy Malaysian" products campaign has stimulated growth in the food processing industry, with positive impact on ingredients demand.	Price sensitivity of consumers under current economic conditions directly affects the sector's buyers and their suppliers.
The food processing sector's active involvement in R&D activities and constant new production introductions create new demands for new ingredient types.	Dominance of domestic suppliers in edible oil, poultry, pineapple and cocoa.
Certain US ingredients are already accepted by some of the larger companies. These companies will readily evaluate new ingredients from the USA because of their confidence in the quality of US ingredients.	

3. Road map for market entry

3.1 Entry strategy

New-to-market US exporters need to fully understand the food processors' demand needs and how best to meet their purchasing requirements and specifications. They should consider the following when

planning to enter the market:

- The need for US exporters to satisfy Malaysia's demand for *halal* certified ingredients. This is of overriding importance to any ingredient supplier seeking to develop a long term and substantial business as a supplier to local food and beverage manufacturers.
- The price competitiveness of US products compared to other major suppliers. Malaysia imports food ingredients, additives and chemicals from all over the world, including Australia, Thailand, the USA, India, New Zealand, the EU, Argentina and Brazil.
- The food processor's purchasing policy, i.e. whether it buys directly from overseas suppliers or via local importers/agents. It is important to note that some companies prefer to buy through local agents because the local agents are better positioned to deal with any quality problem encountered by the buyer on an immediate basis.
- The financial strength of the targeted food processors, the geographical spread of their target markets, their level of demand for imported food ingredients, the level of their R&D activities and investments into new product introduction and their level of interest in using new ingredients from the USA.

3.2 Market structure

The Table below provides some details of the major food and beverage industries' output from 1997 to 2000.

Major Food and Beverage Industries' Output - Selected Sectors (Tonnes)					
	No. businesses in 2000	1997	1998	1999	2000
Sweetened condensed milk	6	174,673	154,096	165,119	156,766
Infant milk powder	3	16,545	18,137	15,456	20,528
Canned pineapples	3	31,114	23,453	21,168	18,253
Chocolates	8	19,490	23,605	12,572	16,223
Confectionery and sweets	17	28,394	24,152	29,131	27,705
Prawn/fish crackers	12	20,967	13,177	13,303	14,119
Snack products	23	20,628	19,895	22,180	26,572
Canned fish	7	19,479	17,755	16,269	22,706

Frozen prawns/shrimps	13	15,119	16,747	18,329	17,620
Margarine	11	26,572	25,842	23,911	18,987
Blended cooking oil	7	86,637	94,404	87,560	68,299
Shortening	11	54,803	51,361	58,315	83,861
Wheat flour	7	720,240	713,617	760,704	706,439
Biscuit	22	107,017	109,306	122,380	109,621
Refined sugar	4	1,155,320	1,072,750	1,225,842	1,234,065
Carbonated beverages	5	339,547	278,083	196,053	223,227
Non-carbonated beverages	13	173,800	140,279	155,264	179,902
Source: Department of Statistics					

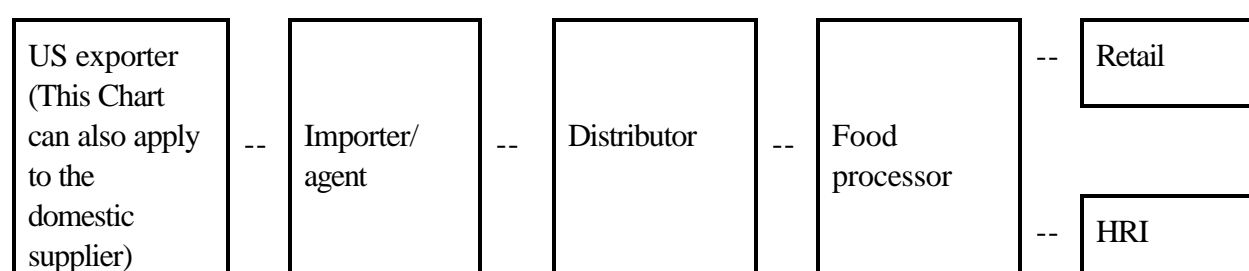
It should be noted that a number of companies operate in a wide range of sectors. These businesses are larger businesses which dominate the markets in which they operate. They include:

- Nestlé (Malaysia) Bhd.
- Fraser & Neave (Malaya) Sdn Bhd.
- Yeo Hiap Seng (Malaysia) Bhd.
- Mamee-Double Decker (Malaysia) Bhd.
- Lam Soon (M) Berhad/Ace Canning Corporation Sdn Bhd.
- A. Clouet & Co. (Kuala Lumpur) Sdn Bhd.

Groupe Danone (France) is another foreign group which is expanding its business from a strong position in the local biscuit market. Its main local subsidiary is known as Britannia Brands (Malaysia) Sdn Bhd.

3.3 Distribution channels

The Chart below gives an overview of the usual distribution channel for imported food ingredients from US exporters to food processors.



Large food processing companies prefer to buy their food ingredients directly from overseas suppliers instead of using local agents because they can:

- Directly benefit from cost savings when buying in bulk from the overseas suppliers.
- Control the quality of the ingredients they obtain.
- Obtain a better service from the overseas supplier if they deal directly with them.

In some cases, these large companies prefer to purchase from local agents when:

- they require small quantities of food ingredients.
- the overseas supplier is not sympathetic about the quality problems encountered by the user. In this case, the local agent, being in-country, is often better able to deal with these problems.

3.4 Company profiles

The Table below provides information on the major food processing companies involved in the sector.

Company (Product types)	Sales (US\$ millions)	End-use Channels	Production Location	Procurement Channels
Nestlé (Malaysia) Bhd (dairy, juices, instant noodles, fortified food drinks, sauces, chocolate, soups, coffee, breakfast cereals) Major exporter to ASEAN, other Asian and Middle-East countries, Australia, New Zealand, USA and some European countries.	513.8 (1999)	Retail and HRI	Malaysia (10)	Direct and via agents.
Carlsberg Brewery Malaysia Bhd (beer, stout, shandy, non-alcoholic beverages) Major exporter to ASEAN and other Asian countries.	221.7 (1999)	Retail and HRI	Malaysia (1)	Direct and via agents.
Yeo Hiap Seng (M) Bhd (instant noodles, Asian sauces, Asian drinks and other non-alcoholic beverages, canned meat & fish, canned vegetables & fruits, dairy) Major exporter to ASEAN, other Asian and Middle-East countries as well as to USA, Australia, New Zealand and some European countries.	117.5 (2000)	Retail and HRI	Malaysia (12)	Direct and via agents.

Ayamas Food Corporation Bhd (chicken nuggets, meatballs, fritters, burgers, drummets, sausages, frankfurters, roasters, freezer-to-fryer raw, frozen or cooked meat products) Exports to neighbouring countries and Middle East countries.	91 (1999)	Retail and HRI	Malaysia (2)	Direct and via agents.
Yee Lee Corporation Bhd (edible oil, shortening, margarine, mineral water, vermicelli) Exports to ASEAN and other Asian countries, Australia, Europe, USA and Canada.	77.1 (1999)	Retail and HRI	Malaysia (13)	Direct and via agents.
Mamee-Double Decker (M) Bhd (instant noodles, snacks, confectionery, soft drink, milk drinks) Exports to ASEAN and other Asian countries, Australia, New Zealand, Middle East countries, Pacific Island nations, USA, Canada and Europe.	50 (1999)	Retail	Malaysia (4)	Direct and via agents.
Mafipro Sdn Bhd (canned fish, canned beans, juices) Exports to ASEAN countries, China and Australia.	26 (2000)	Retail	Malaysia (1)	Direct and via agents.
Ace Canning Corporation Sdn Bhd (Canned vegetables, oriental sauces, peanut butter, canned juices, Asian drinks and other non-alcoholic drinks, bread spread) Exports to ASEAN and other Asian countries, Middle East, Australia, New Zealand, some Pacific Island nations, Europe, USA and Canada.	20.3 (2000)	Retail and HRI	Malaysia (2)	Direct and via agents.

3.5 Sector trends

The Malaysian food and beverage manufacturing industry has a broader base than many of Southeast Asia's food and beverage processing industries. Most of the major food processing companies are also involved in exporting their products to overseas markets. The following factors have contributed to the production diversity found in the industry today:

- The presence of a wide range of high quality imported processed food and beverages because

of the relatively low import duties on most of these products. This has stimulated the introduction of new foods to local production by local businesses seeking to benchmark imported products which have become popular with local consumers, e.g. biscuits, confectionery and snack products.

- Malaysia's open trading environment has stimulated the extensive use of imported ingredients by its local food processing industry. This has enabled the industry to experiment and introduce a wide range of new processed products to the market, e.g. prepared frozen foods, processed meats and new age beverages.
- Malaysia aims to be the international centre for "*halal*" food production. Malaysia's accreditation on *halal* (the product can be consumed by Muslims) products is highly respected and recognised by most Islamic nations. This allows Malaysian based companies to penetrate these markets with ease with their *halal* certified food and beverage products. This has created an opportunity for the food industry to produce *halal* certified foods and beverages targeted at the Muslim markets worldwide. Today, Malaysia has one of the widest range of processed *halal* foods in the world.
- The government's campaign for consumers to "Buy Malaysian" products has encouraged the retail sector to carry more Malaysian produced food and beverage products. This has stimulated confidence in the industry with increased investment in R&D activities, increased introduction of new product range, expansion of the domestic market into both the retail and HRI sectors and entry into new overseas markets.

In addition, the Asian economic crisis has forced a large number of the companies to become more efficient in their operation. With increased competition for market shares, these companies have implemented cost saving exercises and consolidated their operations to be more competitive in the market. This included sourcing of ingredients from lower cost suppliers and, where possible, from domestic suppliers.

4. Competition in the sector

Product	Import Market Size in 2000	Major Supply Countries in 2000	Reasons for Strengths of Key Supply Countries
Fish and seafood	35,113 tonnes US\$ 37.8 m (CIF)	India (31%) South Africa (14%) UK (10%) USA is an insignificant supplier (1%).	India supply very price competitive mackerel to the fish canning industry. UK supply high quality, price competitive fish products demanded by the major fish canning companies.

Frozen beef and mutton	94,666 tonnes US\$ 120.5 m (CIF)	India (74%) Australia (12%) New Zealand (11%) USA is an insignificant supplier (1%).	India supplies price competitive beef. Australian and New Zealand products are demanded by the high end food service sector. A large proportion of the imports is destined for the HRI sector.
Frozen poultry	30,460 tonnes US\$ 36.9 m (CIF)	Denmark (29%) Netherlands (25%) USA is a minor supplier (7%)	Local chicken dominates. Denmark and the Netherlands supply price competitive good quality products. The bulk of the imports is destined for the HRI sector.
Dairy	183,894 tonnes US\$ 273.2 m (CIF)	New Zealand (39%) Australia (32%) USA is a minor supplier (2%).	New Zealand and Australia are aggressive suppliers of high quality, price competitive dairy products.
Cereals and cereal products	134,136 tonnes US\$ 269.4 m (CIF)	Australia (27%) Canada (20%) Thailand (15%) USA is a minor supplier (2%).	Australia and Canada target the flour mills with their noodle and bread flour. Thailand is a major supplier of rice flour and other cereal flour.
Edible nuts	6,641 tonnes US\$ 8.7m (CIF)	China (37%) USA (21%)	China supplies mainly groundnuts. USA leads in supplying the other types of edible nuts such as almond, pistachio, hazelnut. A large proportion of the imports is for local re-packing under local brands targeted at the retail sector.
Tomato for processing	962 tonnes US\$ 0.8m (CIF)	Turkey (42%) China (28%) USA (11%)	Turkey supplies high quality tomato puree to sauce processors. China supplies competitive products.
Peas and beans for processing	53,130 tonnes US\$ 23.7 m (CIF)	Myanmar (43%) Australia (14%) China (12%) USA is a minor supplier(5%)	Myanmar and China supply price competitive beans. Australia supplies high quality peas and beans demanded by the major processors.

Juices	5,143 tonnes US\$ 8.1m (CIF)	Brazil (21%) Singapore (19%) New Zealand (14%) USA is a minor supplier (9%).	Brazil supply high quality, price competitive juice concentrates. New Zealand also competes on price and quality. Singapore is a re-export centre for juice concentrates from other countries.
Sugar and sugar derivatives	34,295 tonnes US\$ 10.8m (CIF)	India (26%) USA (22%) Germany (15%)	India is a very price competitive major supplier.
Coffee/tea extracts, essences and concentrates, cocoa butter	6,183 tonnes US\$ 22.8m (CIF)	Indonesia (51%) USA (9%)	Indonesia is a major supplier of coffee concentrates, extracts and cocoa butter.
Protein concentrates	1,649 tonnes US\$ 4.5m (CIF)	Brazil (30%) USA (27%) France (11%)	Brazil is a very price competitive supplier of protein concentrates and textured protein substitutes.
Oil seeds for extraction of vegetable oils	708,838 tonnes US\$ 178.2 m (CIF)	USA (34%) Argentina (27%) Canada (17%)	All these countries compete on quality and price in the commodity market.
Fats and oils	118,135 tonnes US\$ 132.5 m (CIF)	Argentina (65%) USA is a minor supplier (4%).	Argentina is price competitive.
Essential oils	3,834 tonnes US\$ 31.4m (CIF)	Ireland (24%) Singapore (22%) USA is a minor supplier (7%).	Ireland is very price competitive in the supply of mixtures of essential oils for use in the food and beverage industry. Singapore targets its neighbouring country with its products.
Starches, inulin and wheat gluten	155,379 tonnes US\$ 50.5m (CIF)	Thailand (63%) USA is a minor supplier (4%).	Thailand is very price competitive.

The bulk of the food ingredients used by the following major food processing sectors are imported either because there is no domestic production of the food ingredient or no local alternatives are available:

- Sugar refining.
- Wheat flour milling. This industry produces flour for the large domestic bakery sector and noodle manufacturing sector.
- Non-alcoholic beverage sector.
- Dairy sector.
- Confectionery sector (excluding chocolates and cocoa-based products).
- Fish canning and surimi-based seafood production sector.
- Brewery sector.

The bulk of the food ingredients used by the following major food processing sectors are supplied by domestic producers:

- Edible oil manufacturing.
- Poultry processing and related products.
- Pineapple canning.
- Cocoa and chocolate products manufacture.

5. Best product prospects

It should be noted that this market attractiveness review has been developed from a broad study of the Malaysian market and not detailed market studies of each segment. As a result, the reader should not construe it as the results of a full and detailed market study into opportunities for U.S. products. This assessment considers in broad terms the likely strategic direction of each market segment but does not consider or provide advice on the strategies or tactics that will be needed by US exporters to develop viable markets.

The summary of findings is as follows:

Category A products:	Category B products:	Category C products:
<ul style="list-style-type: none"> • Oil seeds for extraction of vegetable oils • Edible nuts • Tomato puree • Sugar derivatives • Protein concentrates 	<ul style="list-style-type: none"> • Dairy ingredients • Cereal and cereal products • Peas and beans • Juice concentrates • Coffee/tea concentrates, extracts and essences • Fish and seafood • Essential oils • Starches 	<ul style="list-style-type: none"> • Frozen beef and lamb • Frozen poultry • Fats and oils

END OF REPORT